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DEMAND AND PRICE Situation

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DEMAND AND PRICE SITUATION

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Approved by
the Outlook and Situation Board
and Summary released
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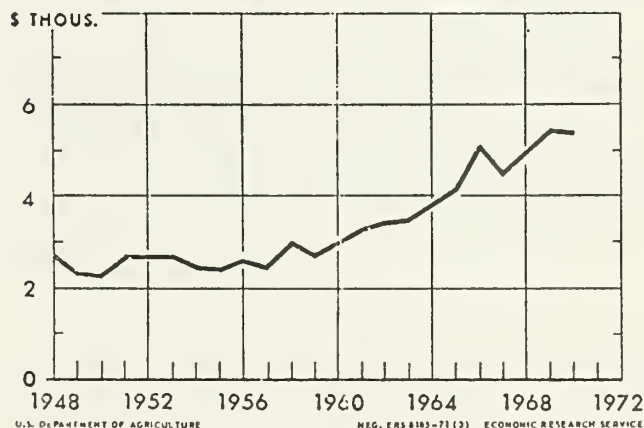
SUMMARY

Farmers can look forward to stronger prices and incomes in the months ahead. With production tapering off, and demand continuing to strengthen, prices for livestock and products will probably perk up around midyear. By fall these prices will run at least moderately above the low levels of late 1970. Uncertainties surrounding the corn blight, drought in the Southwest, and producer reaction to new farm programs make forecasting the major crops more difficult this year. Taking these factors into account and assuming a fairly firm demand situation, supplies may remain tight and prices may hold well above a year earlier until the crops are pretty well made. Prices then will decline seasonally, but they may continue above most other recent years because of reduced stock levels.

Cash receipts from livestock marketings for the year will about match or possibly top last year's \$29.1 billion. Receipts from crop marketings, though more uncertain than usual, may run around \$1½ billion above 1970's \$19.6 billion.

Part of this year's pickup in market receipts will be offset by smaller direct government payments to farmers. And with production expenses continuing to advance, realized net farm income may total a little below last year's \$15.8 billion. But a further decline in the number of farms may hold realized net income per farm close to the record level of around \$5,400 of the past 2 years.

REALIZED NET INCOME PER FARM



The Nation's economy is moving forward again. Retail sales are accelerating, rising well above a year earlier. Many industries are showing an upturn in corporate profits. The stock market has made substantial gains, buoying consumer and investment confidence. But unemployment and inflation persist despite a rebound in real output.

Table 1.—Selected measures of economic activity

Item	Year 1970	1969		1970				1971
		III	IV	I	II	III	IV	I ¹
Billion dollars								
Gross national product	976.5	942.6	951.7	959.5	971.1	985.5	989.9	1,018.4
Disposable personal income . . .	684.8	640.6	650.6	665.3	683.6	693.0	697.2	714.9
Personal consumption expenditures	616.7	582.1	592.6	603.1	614.4	622.1	627.0	644.7
Food spending (excluding alcoholic beverages)	114.2	105.8	108.2	111.8	113.9	114.8	116.4	117.0
1958=100								
Implicit price deflator for GNP	134.9	129.0	130.5	132.6	134.0	135.5	137.4	139.2
Percent								
Unemployment rate ²	4.9	3.6	3.6	4.2	4.8	5.2	5.9	5.9
Billion dollars								
Cash receipts from farm marketings	48.7	47.4	47.6	49.0	49.0	48.8	48.0	48.8
Nonmoney income and Government payments	7.5	7.4	7.6	7.3	7.2	7.7	7.8	7.3
Realized gross farm income	56.2	54.8	55.2	56.3	56.2	56.5	55.8	56.1
Farm production expenses	40.4	38.6	39.0	39.8	40.1	40.8	40.9	41.5
Farmers' realized net farm income	15.8	16.2	16.2	16.5	16.1	15.7	14.9	14.6
Agricultural exports ³	7.2	1.4	1.9	1.7	1.7	1.6	2.2	2.0
Agricultural imports ³	5.7	1.2	1.4	1.5	1.4	1.4	1.4	1.4
1967=100								
Volume of farm marketings . . .	103	104	134	94	83	103	132	94
Livestock and products	103	101	106	97	102	102	109	101
Crops	103	109	171	90	58	103	162	84
Price received by farmers ⁴	110	109	111	114	111	111	106	110
Livestock	118	119	121	125	118	117	110	114
Crops	101	97	96	97	101	103	101	105
Prices paid by farmers ^{4 5}	114	109	111	113	113	114	115	118
Wholesale price index, all commodities ⁴	110.4	106.9	108.0	109.6	110.1	110.8	111.0	112.5
Consumer price index, all items ⁴	116.3	110.7	112.2	113.9	115.7	117.0	118.6	119.5
All food	114.9	110.4	111.5	113.9	114.9	115.8	115.2	116.1
Food at Home	113.7	109.9	110.5	113.2	113.7	114.4	113.4	114.1

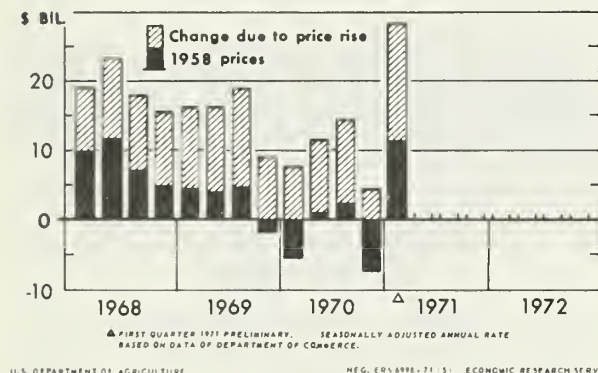
¹ Preliminary. ² Unemployment as a percent of the civilian labor force. ³ Actual values, not seasonally adjusted annual rates. ⁴ Not seasonally adjusted. ⁵ Including interest, taxes, and wage rates.

Departments of Agriculture, Commerce, and Labor.

Even though there is a threat of a steel strike in August, the economic picture through mid-1972 is encouraging. Recent surveys indicate that businessmen are enlarging their plans for new plant and equipment. Federal, State, and local governments have scheduled large increases in their expenditures in the next fiscal year. And, housing, finally making its long-awaited expansion, should advance strongly to meet pent-up demand and accommodate the record rate of new family formations.

Increases in social security benefits, record wage settlements, and further reductions in Federal personal income tax rates will lead to a 7% gain in disposable personal incomes this year. Although somewhat less than the very large 8½% increase in 1970, these advancing incomes will further stimulate outlays for food and other consumer items.

GROSS NATIONAL PRODUCT Change From Previous Quarter

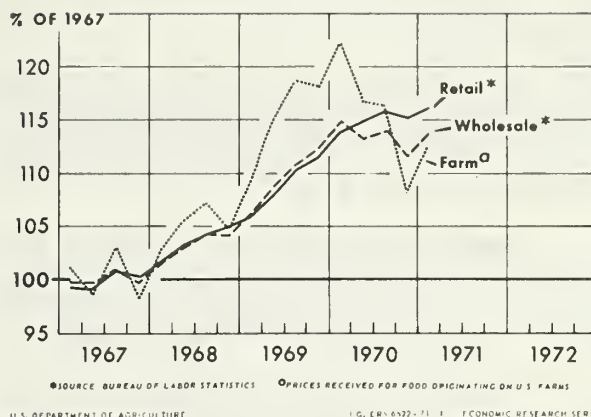


Large supplies held food prices in retail stores in early 1971 to less than 1% above a year earlier, and less than price advances for other consumer goods and services. Increases over a year earlier in prices for food at home will be larger later this year, particularly as pork supplies drop from year-earlier levels. Prices will move up some during the summer and then possibly show little change in the fall. For the year as a whole, food prices in retail stores may average 2% higher, around half as much as the increase for 1970. Food prices in restaurants will advance again, though at a slower rate than in 1970.

A record of well over \$7½ billion for U.S. agricultural exports seems assured for 1970/71. Indications for the sale of U.S. farm products abroad in the second half of 1971 are for a continued high level though somewhat less brisk than the recent performance. World grain production is expected to rebound in 1971, and U.S. cotton supplies available for export are down. Exports of U.S. soybeans and products will continue at a high level as livestock production abroad expands further, particularly in the developed nations.

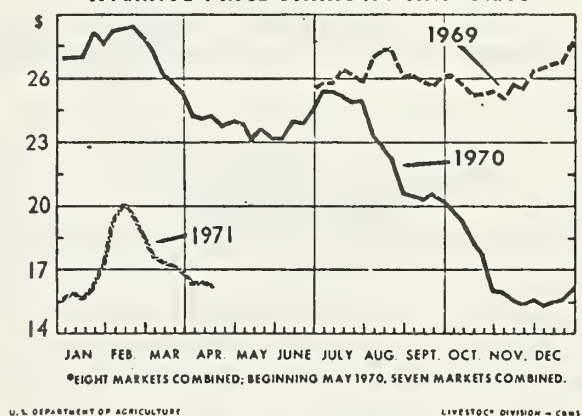
... Outlook for major farm commodities. ...

FOOD PRICES



... *Hog* slaughter—now up sharply—will probably continue above a year ago until fall. Prices are under pressure, but will strengthen as output is cut back sharply.

AVERAGE PRICE BARROWS AND GILTS*



... *Cattle* on feed are up—larger spring and summer marketings will push prices down, but they will likely stay above a year ago.

... *Broiler* production, off from last year, will rise seasonally this spring and summer but average below a year earlier. Prices will be tempered by competition from large pork supplies.

... *Turkey* output is running large for this time of year. Prices may improve later as production edges below a year earlier, but ample supplies of competing meats will continue to limit price strength.

... *Eggs* are plentiful this year. Prices are feeling the pinch from large supplies.

... *Milk* continued flowing at slightly higher rates than a year earlier in the first quarter. Boosts in support prices likely will hold producer prices about 5% above a year earlier during the rest of 1971.

.... *Wool* use is lagging as man-made fibers maintain their competitive edge. Prices continue to trail year-earlier levels.

.... *Feed grain* use in 1970/71 will probably be off slightly from last year. Reduced stocks and uncertainty concerning the 1971 corn crop will make grain prices unusually sensitive through summer.

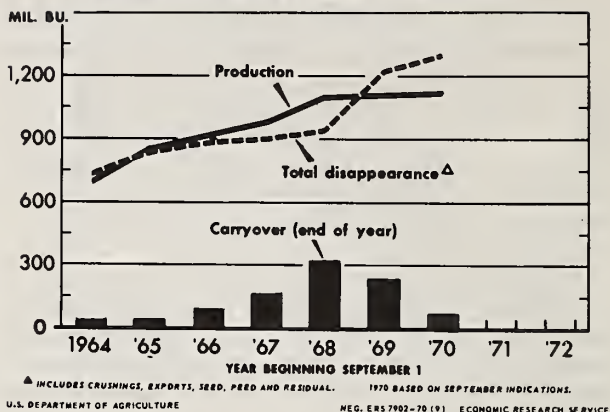
.... Strong demand for *wheat* in foreign and domestic markets will probably ease stocks to the lowest level since 1968. Prices in the next few months are expected to continue moderately above a year earlier.

.... *Soybean* supplies are smaller again this marketing season. Utilization has been high and prices favorable.

.... Disappearance of *U.S. cotton* is running moderately above last season, reflecting a stronger export demand due to shorter free-world supplies and slightly higher domestic consumption.

.... *Tobacco* carryover may change little with disappearance in 1970/71 about matching the 1970 crop.

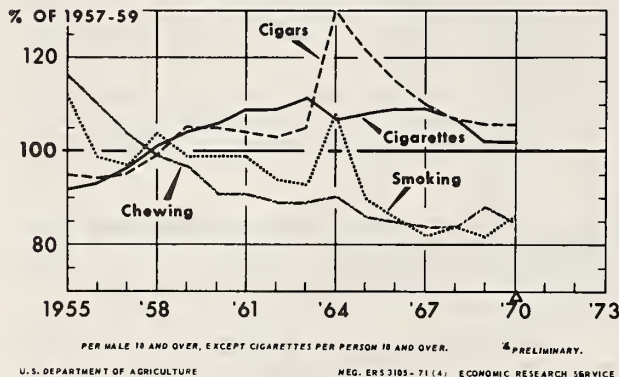
SOYBEAN OUTPUT AND CARRYOVER



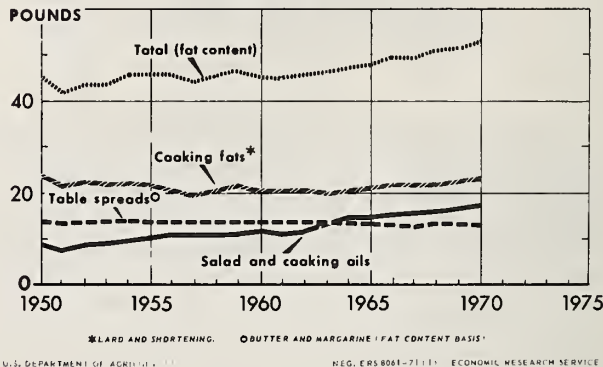
.... *Citrus* output is up substantially this season. But use is very high and prices have strengthened in recent months.

.... *Fresh vegetable* production this spring is moderately below a year ago because of cold weather. Stocks of *processed vegetables* are down, but a projected increase in plantings points to larger crops this season.

PER CAPITA CONSUMPTION OF TOBACCO PRODUCTS



U.S. CONSUMPTION OF FOOD FATS AND OILS PER PERSON

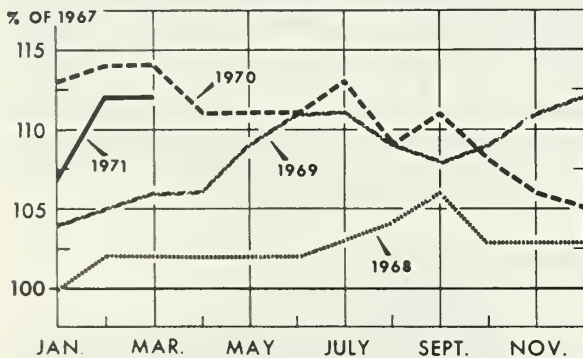


AGRICULTURAL SITUATION

Supply increases for livestock and products, mainly pork, dominate the agricultural situation in early 1971. Although producer prices and market incomes recovered some from fourth quarter levels, prices for livestock and products averaged 8% below a year earlier in the first 4 months of 1971. Crop prices, however, ran 9% overall index of farm product prices averaged only 2% below a year earlier.

Farmers can look forward to some price firming in the months ahead. Supply increases for livestock and products will taper off, and production by fall will trail year-earlier rates if hog output is curtailed as now indicated. Accordingly, with demand continuing to strengthen, prices for livestock and products will perk up around midyear, and by fall run at least moderately above the depressed levels of late 1970. Supplies of major crops are especially difficult to forecast this year because of the uncertainty surrounding 1971 production due to several factors such as the drought in the Southwest, producer reaction to the new farm programs, and possible recurrence of corn blight. Taking these factors into account, and assuming fairly firm domestic and foreign markets, supplies likely will continue tight and prices will average well above a year earlier until the crops are pretty well made. After that prices will decline some seasonally, but they may continue above most other recent years because of reduced stock levels.

PRICES RECEIVED BY FARMERS



U.S. DEPARTMENT OF AGRICULTURE

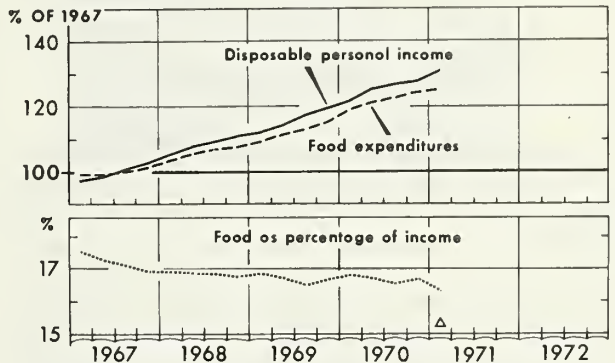
NEG. ERS 9266-71 (3) ECONOMIC RESEARCH SERVICE

Domestic Demand

Domestic markets for farm products made modest improvements in the first quarter. Consumers' disposable personal income advanced at a brisk 10% annual rate, buoyed mainly by higher wages and salaries, transfer payments, and lower income tax withholding rates. But most of the income gain went for durable goods, mainly autos whose sales were depressed sharply last fall due to the strike. Outlays at retail for food, alcohol, clothing,

tobacco, and other items that originate at the farm showed the smallest increase in several years. These expenditures ran at an annual rate of \$201.1 billion, 2.2% above the previous quarter, and up a little more than 5% from a year ago.

FOOD EXPENDITURES AND INCOME



SEASONALLY ADJUSTED ANNUAL RATE Δ PRELIMINARY. BASED ON DATA OF DEPARTMENT OF COMMERCE
U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 9266-71 (3) ECONOMIC RESEARCH SERVICE

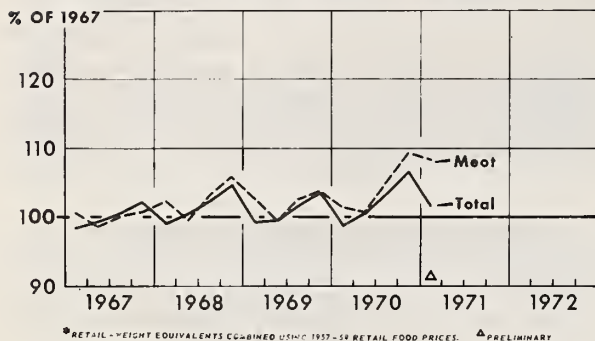
Advances in economic activity in coming months will lead to further expansion in disposable personal incomes. For 1971 as a whole, income will probably increase around 7% from last year's level. With larger take-home pay, outlays for food and other farm products will strengthen during the rest of 1971.

Consumer outlays for food totaled \$117 billion, annual rate, in the first quarter. The upsurge in supplies of meats (mainly pork) limited the rise in food prices and brought the smallest gain in food spending since mid-1967. For 1971 as a whole, income advances are expected to boost expenditures for food about 5% for the year.

Per capita consumption of livestock products made big increases in the first quarter. The lion's share of the gain came from pork, although eggs and poultry also were up. As summer approaches, larger output of pork compared to a year earlier will continue to boost market supplies of livestock and products. But in the summer, increases in pork supplies will moderate and by fall per capita consumption of livestock and products will probably ease below a year earlier.

Food consumption prospects for 1971 as a whole favor increased per capita use of both livestock and crop food products. Among the livestock and products, the big gainer is pork, while small increases are expected for beef, eggs, turkey, and cheese. Declines are likely for broilers, lamb and veal, and most dairy products. The consumption outlook for crop foods suggests more processed fruits and vegetables, and vegetable oils; about the same rate of consumption for grains; and declines for fresh fruits and vegetables.

PER CAPITA CONSUMPTION: MEAT AND TOTAL LIVESTOCK PRODUCTS*

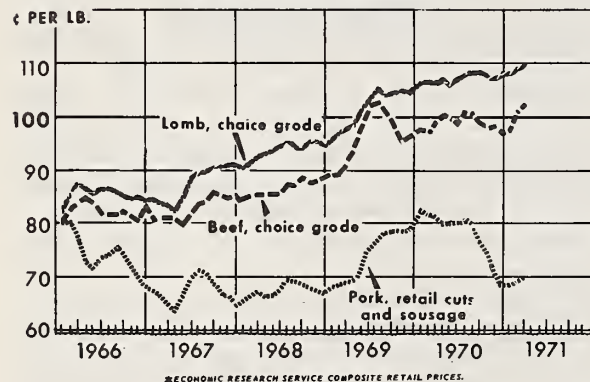


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NEG. ERS 6976-71 (1) ECONOMIC RESEARCH SERVICE

Large food supplies in early 1971 held food prices in retail stores to less than 1% above a year earlier, and sharply less than price advances for other consumer goods and services. Price increases over a year earlier for food at home will probably widen later this year, particularly as livestock supplies tighten. Prices will move up some during the summer, and then possibly show little change in the fall. For the year as a whole food prices in retail stores may average 2% higher, around half as much as the increase for 1970. Food prices in restaurants are expected to advance again, though at a slower rate than in 1970.

RETAIL MEAT PRICES*



U.S. DEPARTMENT OF AGRICULTURE

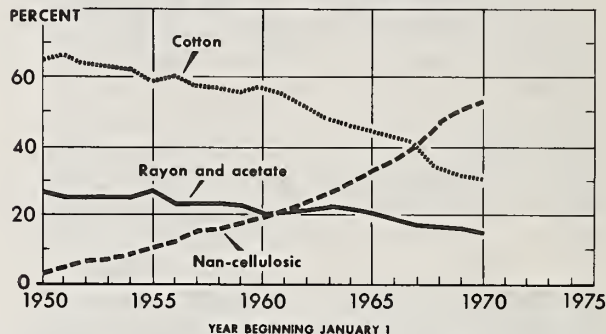
NEG. ERS 2210-71 (1) ECONOMIC RESEARCH SERVICE

Consumer spending for alcoholic beverages picked up slightly in the first quarter to a seasonally adjusted annual rate of \$17.8 billion. The demand for wines, lighter alcoholic beverages, and malt liquors continues to expand in response to growing consumer income, the increasing proportion of young adults, and the social acceptance of drinking. Outlays are estimated to rise some 6 to 7% during 1971, slightly faster than the rate of price increase.

Spending for clothing and shoes rose only slightly to a \$54.1 billion annual rate during January-March 1971 with all of the increase due to higher retail prices. Rising incomes and changing fashions both for men and women

are expected to pave the way to stronger apparel sales in coming months. Although there has been some easing in use of man-made fiber during 1970-71, mill use of cotton held up well and in recent months has been running above year-earlier rates. In contrast, mill use of apparel wool has trended downward in the past year and in the opening months of 1971 was off a third. A little later this year mill use may firm due to low fiber prices and a strong economic situation.

COTTON-EQUIVALENT SHARES OF THE DOMESTIC FIBER MARKET



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 8218-71 (1) ECONOMIC RESEARCH SERVICE

Despite the concerns about smoking, consumers spent at a \$12.2 billion annual rate for tobacco in the first quarter, nearly a tenth more than in the same period in 1970. Much of the increase reflected higher retail prices and rising state and local taxes, but removals indicate that cigarette consumption is running ahead of a year earlier. Cigarette output rebounded in 1970, climbing 4% from the previous year. Most of the pickup occurred in the second half of 1970 when new brands of cigarettes hit the market and inventories were built as a strike hedge for early 1971. Total consumption gained in 1970, but adult per capita smoking was about stable at around 4,000 cigarettes per person.

Exports and Imports of Agricultural Products

The value of U.S. agricultural exports in January-March 1971 soared 22% above the same quarter of a year ago to a record \$2.0 billion. With exports of wheat and soybeans leading the way, foreign sales of U.S. agricultural products in the first 9 months (July-March) of fiscal 1971 reached \$5.9 billion, substantially above the \$5.0 billion of the preceeding July-March. Gains in value this year have also been noted for exports of animals and animal products, barley, sorghum grain, protein meal, soybean oil, and cotton. Substantially higher prices for most of the big ticket items have accounted for one-third of the advance. While the primary market for U.S. farm products is the industrial countries, shipments to developing nations were up 12%, with sales for dollars making up the gain.

For the fiscal year ending June 30, exports are certain to reach a new all-time high, substantially above \$7.5 billion.

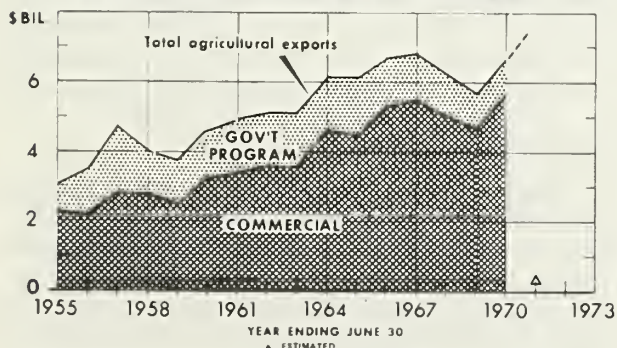
U.S. Agricultural exports, value of major commodities

Commodity	July-March		Percent- age change
	1969/70	1970/71 ¹	
	Million dollars	Million dollars	Percent
Animals and animal products	600	684	14
Cotton	238	340	43
Feed grains, excluding products	781	913	17
Fruits	258	254	-2
Soybeans	756	958	27
Tobacco, unmanufactured ..	449	441	-2
Vegetables	146	150	3
Wheat and flour	705	918	30
Rice	239	210	-12
Other	819	1,019	24
Total exports	4,991	5,887	18

¹ Preliminary.

The sale of U.S. farm products abroad may be less brisk in coming months. The recent slowdown in economic activity in the developed nations, particularly Western Europe and Japan, will likely be translated into some weakening in demand in the near future. World grain production in 1971 is expected to rebound and boost supplies. U.S. cotton exports, while running substantially ahead of a year ago, are threatened because of declining stocks and prospects for continued tight supplies. Exports of U.S. soybeans and products will continue at a high level as livestock production abroad expands further, particularly in the developed nations.

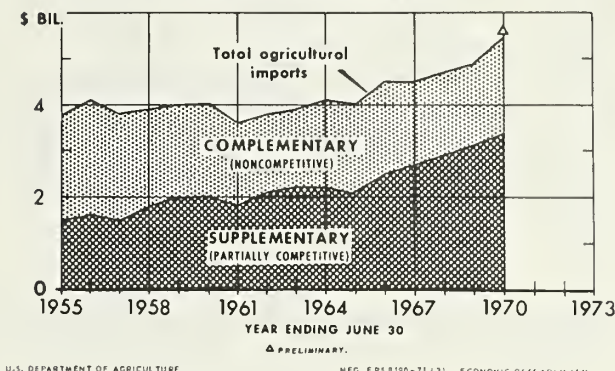
U.S. AGRICULTURAL EXPORTS: COMMERCIAL AND UNDER GOVERNMENT PROGRAMS



Agricultural imports in January-March 1971 were valued at \$1.4 billion, 3% below the total for the same quarter of 1970. But the total of \$4.3 billion for July-March of fiscal 1971 was up 3%. Advances were

recorded for dairy products, fruits, nuts, sugar, and wines. Declines were noted for dutiable cattle, hides, and wool.

U.S. AGRICULTURAL IMPORTS: SUPPLEMENTARY AND COMPLEMENTARY



U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 5100-71 (3) ECONOMIC RESEARCH SERVICE

Noncompetitive imports for the July-March period stood at \$1.6 billion, indicating little change in value this year. Higher prices offset a 14% volume decline in green coffee imports, pushing value up 8% to \$0.9 billion. On the other hand, lower prices dropped cocoa bean value 11% to about \$0.1 billion despite a big gain in volume. Crude rubber value fell a third with a sharp decline in volume.

U.S. agricultural trade balance, July-March
1969/70 and 1970/71

Item	1969/70	1970/71 ¹	Percent- age change
	Million dollars	Million dollars	Percent
Exports	4,991	5,887	18
Imports	4,135	4,264	3
Trade balance	856	1,623	90

¹ Preliminary

The U.S. agricultural trade balance (exports minus imports) made substantial improvements during July-March. Net export values climbed to \$1.6 billion, compared with \$0.9 billion the previous year.

Output and Prices of Livestock and Products

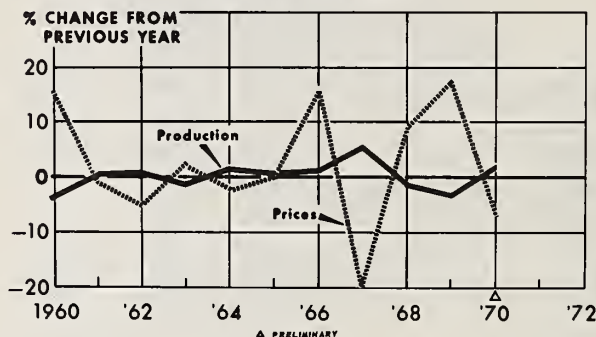
Output of livestock and products ran 5% larger in the first quarter of 1971, compared with last year. Substantially larger pork production coupled with increases for beef, lamb, poultry, eggs, and milk more than offset declines in veal production. A slight pickup in demand, coming with improvements in the general

economy, pushed producer prices above the low levels of late 1970. Even though prices improved from the fourth quarter, the big expansion in supplies kept prices down 9% from the relatively high levels of first quarter 1970. For the rest of 1971, supplies of livestock and products are expected to gradually taper off compared with 1970. Prices should move up during the summer and run well above 1970 levels in the fall. For the year, producer prices likely will average close to those in 1970.

On April 1 cattle feeders reported 1% more cattle on feed compared with spring 1970 but 3% more in weight groups reaching market in the summer. With larger cattle marketings this spring and summer, fed cattle prices probably will decline but continue near or slightly above year-ago levels.

indications are for some easing from last year in the main marketing season. Because of large supplies of turkey and competing meats, turkey prices averaged about 21.4 cents a pound, off 4 cents from last year in the first quarter. Improvement in prices will probably be in the fall when pork supplies are less plentiful and turkey supplies moderate.

EGGS: CHANGES IN PRODUCTION AND FARM PRICES



U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 5395-71 (3) ECONOMIC RESEARCH SERVICE

Egg production ran about 4% above year-ago levels in the first quarter and producer prices dropped to 33.3 cents a dozen, 14 cents below the high levels of year-earlier. Egg output will likely continue large this year because of increased hen and pullet inventories and advances in rates of lay. Egg prices are expected to rise seasonally in the summer. However, large supplies of eggs and other high-protein foods, particularly pork, will tend to dampen any upward movement in egg prices.

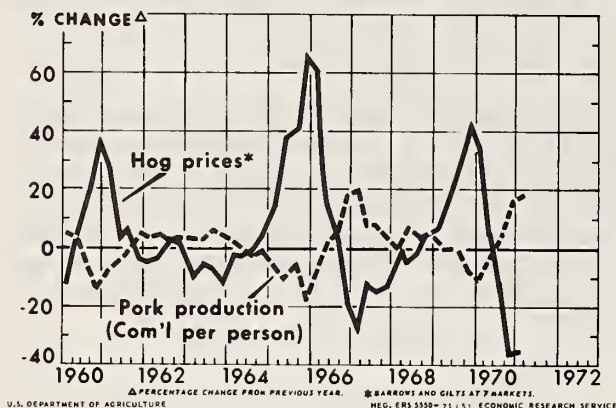
Milk output ran slightly above a year ago in the first quarter. The slight gain in milk production is expected to be maintained throughout 1971. Higher cheese prices in the first quarter boosted average prices received by farmers about 3½% above 1970. The April 1 increase in the support price for manufacturing milk from \$4.66 per 100 pounds to \$4.93 could move milk prices about 5% above 1970 levels during the rest of the year. For the year dairy farmers can look for another 5% advance in gross income due to larger marketings and higher prices.

Crop Supply - Price Picture

Larger crops are on the way in 1971. Producer intentions on March 1 indicated that farmers plan to plant 4% more acreage this spring. Most of the intended increase is in corn, sorghum, and soybeans. Combining this expansion with stable seedings of winter wheat, and small gains for rye, pushes acreage planted to crops for harvest in 1971 nearly 4% above last year's plantings of 300.7 million acres.

But this year's crops are far from being in the barn. The possibility of a recurrence of the corn blight remains a major uncertainty in appraising 1971's crop prospects. In addition, weather may play an unusually important role this season in influencing corn output since a larger

CHANGES IN HOG PRICES AND PORK PRODUCTION



Hog slaughter in the first quarter averaged about a fifth above the same period in 1970 and prices were off 35%. Slaughter is expected to continue substantially ahead of last year into the spring with increases above a year ago narrowing in summer, and output then dropping moderately below a year earlier in the fall. Seasonal declines in slaughter indicate that hog prices will peak in late summer. But they will probably average \$2-\$4 below the \$25.50 per 100 pounds for barrows and gilts in early July 1970. Prices in the fall are likely to decline but average several dollars above a year earlier when barrow and gilt prices tumbled to less than \$16 in November and December.

Broiler output proceeded at about the same rate as a year ago in early 1971. Prices strengthened in February before easing below 1970 levels in mid-March. Recently they edged back slightly above a year earlier. Production is expected to advance seasonally this spring and summer, but fewer chick placements are likely to keep output moderately below last year's record volume. With declines in production likely, prices may show improvement for the rest of 1971, although large competing supplies of pork in the spring and summer will temper any strength in broiler prices. Turkey production is running larger so far in 1971 although

Table 2.—Production and prices received by farmers for major livestock and livestock products, 1968, 1969, 1970, and first quarters of 1970 and 1971

Item	Unit	Annual			First quarter	
		1968	1969	1970	1970	1971 ¹
Production ²						
Beef and veal	Mil. lb.	21,614	21,831	22,272	³ 5,418	³ 5,429
Pork	Mil. lb.	13,063	12,953	13,434	³ 3,053	³ 3,678
Lamb and mutton	Mil. lb.	602	550	551	³ 137	³ 146
Chickens	Mil. lb.	7,580	8,054	8,663	³ 1,798	³ 1,852
Turkeys	Mil. lb.	1,620	1,614	1,738	³ 85	³ 124
Eggs	Mil. lb.	9,064	9,038	9,199	2,265	2,349
Milk	Bil. lb.	117.2	116.3	117.4	⁴ 28.5	⁴ 28.8
Prices received by farmers						
Cattle	Dol./cwt.	23.40	26.20	27.10	27.40	27.70
Hogs	Dol./cwt.	⁵ 18.50	⁵ 22.20	⁵ 22.80	26.40	17.10
Lambs	Dol./cwt.	24.40	27.20	26.60	27.80	24.10
Broilers	Ct./lb.	14.2	15.2	13.5	14.5	13.5
Turkeys	Ct./lb.	20.5	22.4	22.7	25.4	21.4
Eggs	Ct./doz.	34.0	40.0	37.6	47.6	33.3
All milk (Sold to plants) . . .	Dol./cwt.	5.26	5.49	5.68	5.71	5.90

¹ Preliminary. ² Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. ³ Data for 48 States. Commercial slaughter

only. ⁴ Based on monthly data. ⁵ Marketing year average—December-November.

share this year is being planted in the Plains States and Western Corn Belt where weather is more variable. Weather may also affect cotton, wheat, and grain sorghum crops in the Southwest where it has been very dry this spring. Despite these uncertainties, crop output in 1971 could climb as much as 3-4% from the reduced levels of 1970.

Even if crop production expands moderately, sharply reduced current stock levels for feed grains, wheat, cotton, and soybeans suggest that supplies of most major crops will remain in fairly close balance with prospective use during the new season. Thus, even though prices for major field crops have declined some recently, they are expected to hold well above a year earlier at least until the crops develop. Prices in the fall may ease below the relatively high levels of late 1970, but will average above other recent years.

Many questions surround the feed outlook again this year. If corn blight damage matches that in 1970, and the Western Corn Belt and Great Plains have a reasonably good growing season, the corn crop could run a tenth larger than last year. This together with projected production of other feed grains would boost the 1971 total output 15 to 20 million tons above last year's 159 million ton reduced crop. This would be adequate to meet 1971/72 feed needs. Because of tight supplies of feed grains, prices during 1970/71 have been running a fifth above the previous season. These higher prices have helped turn livestock-feed price ratios down, and there are indications that a cutback in livestock supplies is already taking place. This will be a weakening factor in the demand for feed this fall and winter.

A 1.4 billion bushel wheat harvest is expected for 1971. This would be a slightly larger crop than last year, but with the smallest carryover in 3 years total supplies would trail the 1970/71 season by about 7%. Domestic and export demand has been strong during this year and prices for wheat have averaged well above loan rates. Prices are expected to ease seasonally as harvest approaches, but will depend importantly on developments of both new wheat and corn crops.

Soybean producers' plans to boost acreage by 7% suggests a record crop again in 1971. If yields stay on trend, this intended acreages would lead to a crop of 1,250 million bushels. Even so, with carryover stocks relatively low total supplies would be no larger than in 1971/72. But this year growers may shift some additional acreage into soybeans because of limited supplies of blight resistant seed corn, and strong soybean prices. Prices for soybeans have held a fifth higher so far in the 1970/71 season.

CORN PRICES RECEIVED BY FARMERS

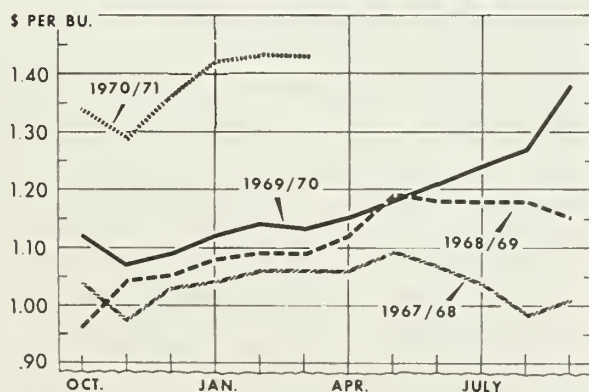


Table 3.—Supply-distribution and season average prices of selected major crops, 1967/68, 1968/69, 1969/70, and 1970/71

Item	Begin- ning stocks	Imports	Produc- tion	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price
<i>Million tons</i>									<i>Dol. per bushel</i>
Feed grains									
1967/68	37.1	0.3	176.0	213.4	141.8	23.3	165.1	48.3	¹ 1.03
1968/69	48.3	.3	168.9	217.5	148.9	18.4	167.3	50.2	¹ 1.08
1969/70 ²	50.2	.4	174.6	225.2	155.6	21.2	176.8	48.4	¹ 1.16
1970/71 ³	48.4	.5	159.0	207.9	154.1	19.8	173.9	34.0	¹ 1.34
<i>Million bushels</i>									<i>Dol. per bushel</i>
Wheat									
1967/68	425.0	.9	1,522.4	1,948.3	647.8	761.1	1,408.9	539.4	1.39
1968/69	539.4	1.1	1,576.2	2,116.7	753.9	544.2	1,298.1	818.6	1.24
1969/70 ²	818.6	3.2	1,460.2	2,282.0	791.2	606.1	1,397.3	884.7	1.24
1970/71 ³	885	1	1,378	2,264	820	725- 750	1,545- 1,570	694- 719	1.36
<i>Million hundredweight</i>									<i>Dol. per cwt.</i>
Rice									
1967/68	8.5	(⁴)	89.4	97.9	⁵ 34.2	56.9	91.1	6.8	4.97
1968/69	6.8	(⁴)	104.1	110.9	⁵ 38.5	56.2	94.7	16.2	5.00
1969/70 ²	16.2	.2	90.9	107.3	⁵ 36.0	54.9	90.9	16.4	4.95
1970/71 ³	16.4	.5	82.9	99.8	35.0				5.08
<i>Million bushels</i>									<i>Dol. per bushel</i>
Soybeans									
1967/68	90.1	0	976.1	1,066.2	633.3	266.6	899.9	166.3	2.49
1968/69	166.3	0	1,103.1	1,269.4	658.2	286.8	945.0	324.4	2.43
1969/70 ²	324.4	0	1,126.3	1,450.7	791.9	428.7	1,220.6	230.1	2.35
1970/71 ³	230.1	0	1,135.8	1,365.9	841	450	1,291	75	2.82
<i>Million bales</i>									<i>Cents per pound</i>
Cotton ⁶									
1967/68	12.5	⁷ .1	7.2	19.9	9.0	4.2	13.2	6.4	25.59
1968/69	6.4	⁷ .1	11.0	17.5	8.2	2.7	11.0	6.5	22.15
1969/70 ²	6.5	⁷ .1	9.9	16.5	8.0	2.8	10.8	5.8	21.09
1970/71 ³	5.8	⁷ .1	10.1	16.0	8.0	3.5	11.5	4.4	22.5

¹Price for corn. ²Preliminary. ³Estimated. ⁴Less than 50,000 cwt. ⁵Includes the following statistical discrepancies: 1967/68, 0.6, 1968/69, 2.8, and 1969/70, 0.9 mil. cwt. ⁶Production based

on ginnings between August 1 and July 31. ⁷Includes city crop. 1970/71 based on recent crop reports and disappearance estimates. Details may not add to totals due to rounding.

Stocks of grains

Grain and position	April 1, 1970	April 1, 1971	Per-centage change 1971/70
	Mil. tons	Mil. tons	Pct.
TOTAL FEED GRAINS			
On farms ¹	79	66	-16
Off farms ²	38	32	-16
Total	117	98	-16
	Mil. bu.	Mil. bu.	Pct.
WHEAT			
On farms ¹	457	386	-16
Off farms ²	741	678	-9
Total	1,198	1,064	-11
SOYBEANS			
On farms ¹	209	250	20
Off farms ²	525	369	-30
Total	734	619	-16

¹Estimates of the Crop Reporting Board. ²Including grain owned by Commodity Credit Corporation.

Cotton plantings may reach 12.1 million acres in 1971, slightly more than last year. However, with carryover slipping to 4½ million bales this summer, total domestic cotton supplies next season will lag those in 1970/71. The reduction in cotton carryover primarily reflects the 25% upsurge in export movement during 1970/71. Domestic use has held about steady this season. Market prices for upland cotton strengthened this winter after easing early in the season. Prices are currently holding moderately above a year earlier, with shorter staples doing the best.

Tobacco production is tailing off again this year. Grower's acreage intentions are down about 6%. With average yields, allowing for trend, production may fall a tenth from 1970. This prospective crop with a steady carryover would pull total supply down about 3% from last season. Growers approved a new burley poundage program May 4. It provides a quota 1 percent below last year's output.

Vegetables are in shorter supply this spring. Fresh production this spring is running moderately behind that of last season due to substantially less lettuce. Cold weather in Florida this winter and early spring hampered tender crops and reduced and delayed harvests of sweet corn, peppers, and tomatoes. On the West Coast a cold wave hit the early spring lettuce crop, and slowed tomato imports from Mexico. As a result, grower prices jumped sharply in the opening months of the year but have since eased off because of seasonally larger supplies.

Processed vegetable supplies are currently less than last season. But growers plan to boost plantings of 8 major crops by about 3% this year. These intentions, if carried out, would expand canned vegetable packs slightly and frozen packs materially for the season. But

because of reduced stocks, the bigger packs of processed vegetables are not expected to depress prices.

Record large supplies of fall potatoes have held prices nearly a fifth below a year earlier so far in 1971. Shipping point prices, especially in the east have strengthened recently.

This season's orange crop is estimated to fill 198 million boxes, 7% more than last year. A substantially larger volume of juice has already been turned out this season at lower average prices for on-tree fruit. However, prices of both raw fruit and products have move up in early spring in response to this winter's freeze and the heavy movement of juice. The grapefruit crop is about harvested. This season's crop was estimated 9% bigger, and a large volume move at lower prices. With supplies down now, prices have strengthened.

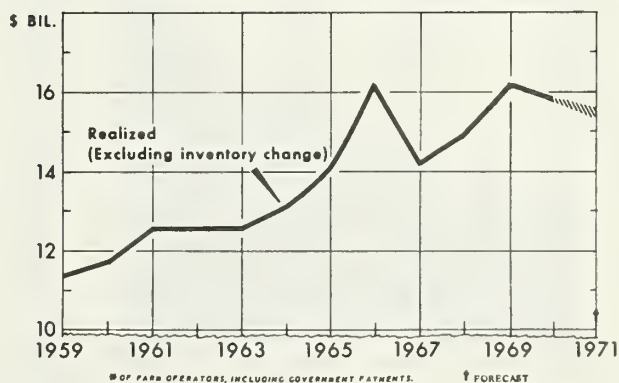
Fewer strawberries may be produced in 1971. Acreage is off in all major producing areas, and prices are up sharply.

Farm Income

Producer incomes were down in the first quarter. Big increases in livestock supplies turned producers' prices for these commodities down sharply, and their market receipts fell 5%. Receipts to crop growers, in contrast, totaled 4% higher in the first quarter due mainly to strong prices for grains, soybeans, and cotton.

Reduced cash receipts and somewhat smaller government payments held farmers' gross incomes to a \$56.1 billion annual rate in the first quarter, off slightly from the previous year. And with production expenses advancing sharply, farmers' realized net income fell to a \$14.6 billion annual rate, compared with the unusually large \$16.5 billion in the first quarter of last year.

REALIZED NET FARM INCOME*



U.S. DEPARTMENT OF AGRICULTURE

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Although first quarter incomes were depressed, farmers can look forward to a progressively improving income picture during the rest of the year. A number of signs point to a stronger tone, particularly in the second half. Hog producers have already indicated plans to cut

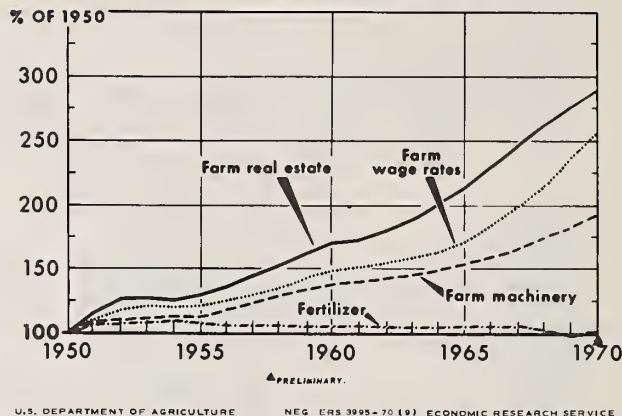
output later this year. And with meat supplies declining, prices should strengthen materially. Milk producers, too, will receive stronger prices during the balance of the year because of the increased support price for manufacturing milk. Among the major crops, growers plan to expand output moderately; but with relatively low stock levels, prices will be pretty well maintained into the 1971/72 season. Moreover, the firming consumer demand picture and a relatively favorable export outlook will lend support to farm commodity prices and incomes in coming months.

These prospects suggest cash receipts from livestock marketings for the year will match or possibly top last year's \$29.1 billion. Crop marketings will be heavily influenced by conditions during the growing season and final outcome of crops. However, present indications are that crop receipts may run around \$1½ billion above 1970's \$19.6 billion.

Part of this year's pickup in market receipts will be offset by smaller direct government payments to farmers. Payments are expected to be off substantially to feed grain producers and slightly smaller to producers of cotton and wheat. Thus, realized gross farm income may run somewhere around \$57½ billion in 1971; compared with last year's \$56.2 billion. And production expenses will climb \$1½ billion or more for the year with input price inflation currently clipping along at nearly a 5% rate. These prospects indicate a realized net farm income for 1971 at a little below last year's \$15.8 billion. But with the number of farms continuing to decline, realized net income per farm will hold close to the record levels of nearly \$5,400 of the past 2 years. Moreover, total income of farm families will climb again this year, reflecting growing off-farm income.

while continuing to advance, are moderating this year. The only decline in input prices was recorded in feeder livestock, reflecting high feed prices and a larger supply of feeder cattle at the beginning of the year.

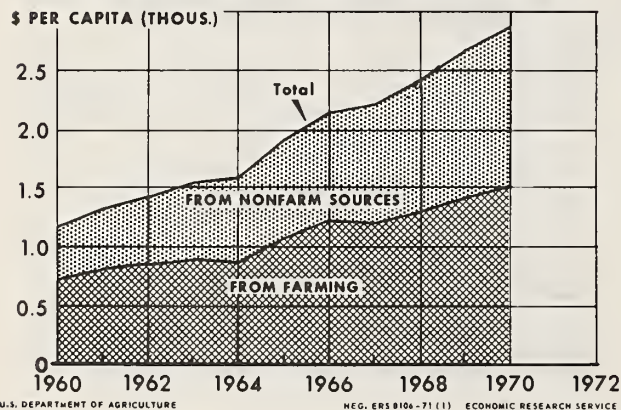
PRICES OF SELECTED FARM INPUTS



Composite farm wage rates (weighted average of time rates on a per hour basis) this April were 5% above April 1970. Wage rates increased in all areas with the largest gain in the East South Central States where per hour rates typically lag other regions. Farm wage rates will likely continue to climb throughout 1971.

Supplies of fertilizer are expected to reach record portions again in 1970/71. Fertilizer materials on a plant nutrient basis will probably total 18 million tons-6% more than last year. Use of fertilizer may increase in response to the larger planted crop acreage this year. Fertilizer prices this season are running moderately above 1970 levels primarily because of costs of manufacturing and shipping.

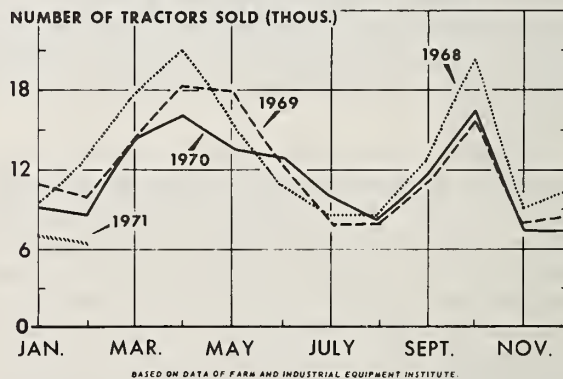
PERSONAL INCOME OF FARM POPULATION



Farm Inputs

Prices paid for production items, interest, taxes, and wage rates in January-April of 1971 averaged 5% above the same period of a year ago. The largest advance so far this year was for taxes, with smaller supplies of feed pushing up feed prices nearly as fast. Interest charges,

RETAIL SALES OF FARM TRACTORS



Retail sales of farm tractors started off the year on a weak note, according to the Farm and Industrial Equipment Institute. Decreases from a year earlier in the opening months were evident in all horsepower

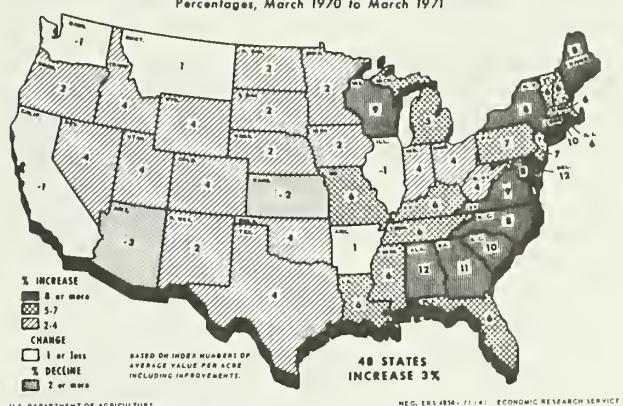
categories except the under 35 h.p. group, where sales advanced 8%. Demand for the more powerful units, sluggish so far this year, is expected to pick-up as the year progresses, particularly if crop prices continue strong. Total tractor sales in 1971 will probably be near the volume of 1970, particularly if interest rates are favorable to borrowers.

Retail sales information for farm machinery is sketchy for the early months of 1971. However, if tractor sales can be used as a gauge of activity in the farm capital market, machinery sales are also lagging year-ago levels. Easing in credit conditions and higher crop prices point to a likely improvement in farm demand for machinery during the rest of the year.

Farm real estate values advanced 3% during the year ended March 1, 1971. Land value increases were the largest in Delaware, Alabama, Georgia, and South Carolina. Demand for farmland was reported sluggish as high mortgage rate charges and uncertainty concerning the effects of the corn blight curtailed long-term

CHANGE IN DOLLAR VALUE OF FARMLAND

Percentages, March 1970 to March 1971



financing activity. For the rest of 1971, improvement in the farm credit market will likely stimulate real estate buying, particularly in the East.

Table 4.—General economic activity
(Seasonally adjusted annual rates)

Item	Year 1970	1970				1971
		I	II	III	IV	I ¹
	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars
Gross national product	976.5	959.5	971.1	985.5	987.9	1,018.4
Gross national product (1958 dollars)	724.1	723.8	724.9	727.4	720.3	731.6
Disposable personal income	684.8	665.3	683.6	693.0	697.2	714.9
Personal consumption expenditures	616.7	603.1	614.4	622.1	627.0	644.7
Durable	89.4	89.1	91.9	91.2	85.3	96.1
Nondurable	264.7	258.8	262.6	265.8	271.5	272.5
Services	262.6	255.2	259.9	265.1	270.2	276.0
Personal savings	50.2	44.8	51.5	52.7	51.8	51.3
Net government receipts	210.4	218.4	207.4	209.9	205.9	---
Government purchases	220.5	219.6	218.4	221.0	223.2	228.0
Federal	99.7	102.3	99.7	98.6	98.2	98.1
State and local	120.9	117.4	118.7	122.4	125.0	129.9
Deficit or surplus (on income and product accounts)	10.1	-1.2	-10.9	-11.2	-17.3	---
Gross private domestic investment	135.7	133.2	134.3	138.3	137.1	142.9
Fixed Investment	132.3	131.6	131.2	132.7	133.5	140.5
Residential	29.7	29.1	28.4	29.2	32.2	35.4
Nonresidential	102.6	102.6	102.8	103.6	101.3	105.1
Change in business inventories	3.5	1.6	3.1	5.5	3.6	2.4
Gross retained earnings	98.1	95.7	97.9	99.1	99.8	---
Excess of investment	-37.6	-37.5	-36.4	-39.2	-37.3	---
Net exports of goods and services	3.6	3.5	4.1	4.2	2.6	2.8
Per capita disposable personal income (1958 dollars)	2,587	2,563	2,601	2,604	2,576	2,609
Total civilian employment (millions) ²	78.6	78.9	78.6	78.5	78.6	78.6

¹ Preliminary. ² U.S. Department of Labor.

U.S. Department of Commerce.

GENERAL ECONOMIC SITUATION

The economy is moving forward once again after pausing in 1969-70. Retail sales are accelerating, rising well above a year ago. A large number of firms have made impressive gains in their corporate profits. The stock market has made substantial gains, buoying consumer and investment confidence. But unemployment and inflation persists despite the rebound in real output.

Major GNP components, change from previous quarter

Item	1970		1971
	III	IV	I ¹
	Billion dollars	Billion dollars	Billion dollars
Total change in GNP	14.4	4.4	28.5
Consumption	7.7	4.9	17.7
Private nonresidential fixed investment .....	.8	-2.3	3.8
Housing .....	.8	3.0	3.2
Inventory ²	2.4	-1.9	-1.2
Net exports .....	.1	-1.6	.2
Government	2.6	2.2	4.8

¹ Preliminary. ² See footnote 1, text table, below.

The first quarter of this year showed significant advances in the gross national product. With the auto strike ended, consumer spending for new cars and services surged. Large gains also occurred in State and local government expenditures, business fixed investment, and housing as monetary conditions eased, and short-term interest rates declined dramatically.

Outlook for 1971-72

Despite the threat of a steel strike in August, the economic picture through mid-1972 is encouraging. Recent surveys indicate that businessmen, less concerned about liquidity problems, and perhaps influenced by the recent improvement in sales, are enlarging their plans for new plant and equipment. The Federal Government has scheduled increases in its expenditures during the next fiscal year. And, housing, finally making its long-awaited expansion, should advance strongly to meet pent-up demand and the record rate of new family formations.

Increases in social security benefits, record wage settlements in unionized industries, and further reductions in Federal personal income tax rates will lead to continued gains in disposable personal incomes this year. Advancing incomes will further increase outlays for food and other consumer items. In addition the personal saving rate is still quite high, it is expected to ease downward as conditions improve. For 1971, after-tax incomes should improve by around 7%, somewhat less than the very large 8½% increase in 1970.

GNP and final sales, change from previous quarter

Year	GNP	Final sales	Inventory change ¹
<i>Billion dollars</i>			
1967: I	3.7	14.0	-10.3
II	10.1	15.2	-5.1
III	16.4	12.2	4.2
IV	15.0	13.7	1.3
1968: I	19.0	26.4	-7.4
II	23.2	15.5	7.8
III	17.7	19.8	-2.2
IV	15.6	14.5	1.1
1969: I	16.2	18.1	-1.9
II	16.1	15.7	.5
III	18.9	15.3	3.4
IV	9.1	13.3	-4.1
1970: I	7.8	13.4	-5.6
II	11.6	10.2	1.5
III	14.4	11.9	2.4
IV	4.4	6.3	-1.9
1971: ² I	28.5	29.7	-1.2

¹ Represents the difference in the rate of change in business inventories. For example, the change in business inventories in the first quarter of 1971 (\$2.4 billion) less the change in the fourth quarter of 1970 (\$3.6 billion) equals minus \$1.2 billion.

² Preliminary.

Because most demand sectors will show considerable improvement over 1970, the economy will likely grow about 3% in real terms during 1971. This would still be below the full employment growth rate of around 4½%. However, with price advances slowing somewhat and productivity improving, 1972 could achieve this desired pace.

Government Receipts and Expenditures

After expanding moderately throughout 1970, State and local government expenditures surged during the first quarter. This advance reflected considerable construction activities made possible by more favorable financial markets and increased Federal grants-in-aid. But the receipts of many localities have been hard hit by defense and aerospace shutdowns. Other localities were hurt by last fall's auto strike. As a whole, however, State and local governments will likely increase their expenditures about a tenth this year.

Federal purchases have leveled off after declining throughout 1970. A small reduction in defense spending was offset in the first quarter of this year by a rise in nondefense purchases. Vietnam withdrawals and modification of certain weapon systems, have outweighed rising prices and increased military pay in the defense area.

The proposed budget for fiscal 1972 schedules a modest increase in Federal programs. Outlays, based upon a full employment economy, will continue to exceed receipts in the coming year. This deficit may tend to be quite large at least until the recovery gets well underway.

Federal receipts and expenditures national income basis¹

Item	1970		1971 First quarter ³
	First half	Second half ²	
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>
Receipts	196.3	193.3	201.4
Personal tax	93.4	89.8	89.9
Corporate profits tax	34.8	33.8	³ 36.0
Indirect business tax	19.4	19.8	20.7
Social Insurance	48.6	49.8	54.8
Expenditures	204.3	208.3	214.0
Goods and services	101.0	98.4	98.1
Transfer payments	59.8	64.2	68.4
Grants to State and local governments	24.0	25.0	27.3
Net interest paid	14.3	14.8	14.3
Subsidies less surplus	5.3	5.8	5.9
Surplus or deficit	-8.0	-15.0	-12.6

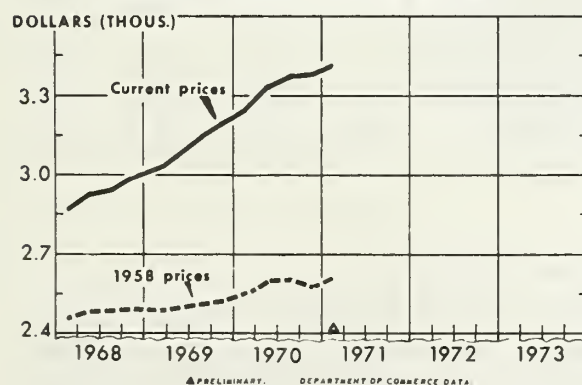
¹ Calendar years, seasonally adjusted annual rates. ² Preliminary.

³ Estimated.

Consumer Demand

Despite a substantial increase in their total expenditures, buyers still are saving a larger than usual portion of their after-tax incomes. Personal saving rates (saving as a percent of disposal personal income) edged lower from 7.4% in fourth quarter 1970 to 7.2% during the first three months of 1971. Unemployment problems and increasing prices apparently have left shoppers selective and cautious.

PER CAPITA DISPOSABLE INCOME



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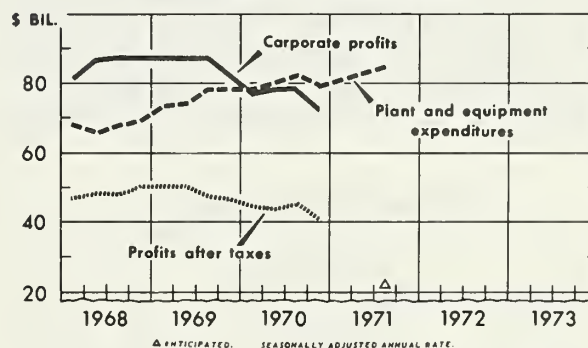
Spending for nondurables just held its own in the first quarter after advancing rapidly during 1970. Food expenditures edged upward while most other nondurable outlays lost ground. Despite big fashion changes, clothing and shoe expenditures slowed. The switch to pant suits by ladies of all ages apparently helped sales. What "hot pants" will do is another question.

Recent consumer sentiment surveys indicate that buyers will probably lower their saving rate in coming quarters. A number of postponed purchases probably will be made, with consumer interest rates down and many prices becoming less rigid. The degree of consumer confidence will probably be the immediate key to whether personal consumption will play a large role in the 1971-72 recovery.

Investment Demand

Outlays by businesses for both structures and producers' durable equipment picked up significantly from a low level in the first quarter. Additional gains are likely in the second half of this year as sales recover. For the year, however, anticipation surveys indicate that expenditures for new plant and equipment may show only a modest gain, after allowing for price increases during the year.

CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES



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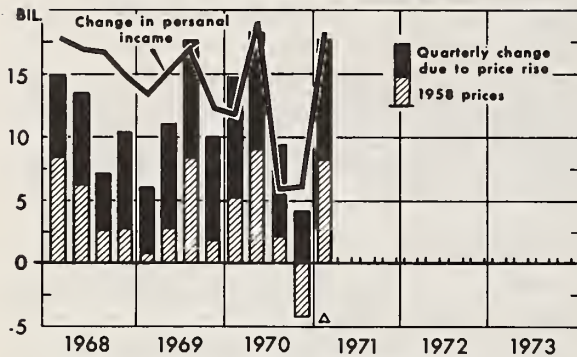
Surveys indicate accelerating expenditures for new plant and equipment center mainly in nondurable and utility industries. Cutbacks by raw material processors and transportation equipment manufacturers may offset large gains in other industries. Food and beverage companies indicate an expansion in outlays well above the average.

In addition to the expected housing boom, inventory investment may add some cheer to the business scene. Inventory build-up has been generally quite small recently and has not created any serious imbalances in existing stocks so far this year. Additions to stocks of autos and steel will continue into the next few months. Retail and wholesale inventories may be stepped up in a number of other trades as demand grows later this year and in early 1972 and costs of accumulation ease.

Employment

The civilian labor force continues to grow but less rapidly than in recent quarters. Even though the economy has been expanding, it has not yet been able to cut significantly into unemployment totals.

DISPOSABLE PERSONAL INCOME*



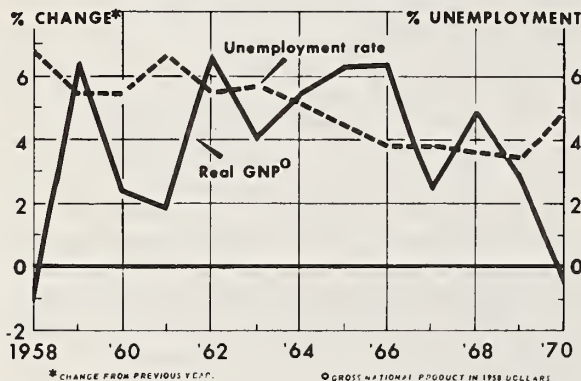
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Employment remained relatively flat in the first quarter with an increase among teenagers offsetting a decline in employment of adult men.

Jobless rates remain about unchanged for most occupational groups. The only significant rise in recent months occurred among professional and technical workers, whose jobless rate rose to 3.2% from 2.5% in fourth quarter 1970. Retraining and replacement of these personnel into other fields has not yet taken place sufficiently to offset the shutdown of defense and aerospace industries.

GNP AND UNEMPLOYMENT



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Despite the high level of unemployment, wages are rising approximately 6½% on an annual rate basis. Still, this is slightly slower than the 1970 and 1969 pace due to smaller wage advances for nonunion workers. However, additional large wage settlements, increased social security taxes, and a rise in overtime are expected to offset large productivity gains during the coming year to a considerable extent, and could limit an anticipated advance in profits.

Prices

Price indexes have been mixed so far this year. The Consumer Price Index increased at a 3.0% annual rate in

the first quarter, from the fourth quarter of 1970 the smallest advance since the second quarter of 1967. A substantial decline in mortgage interest rates and better new car deals for buyers moderated higher prices for most consumer goods and services in March. Unlike other recent months, over two-thirds of the rise that occurred in March was due to higher prices for food, particularly meats, and fresh fruits and vegetables. The March CPI was 4.6% above a year ago.

The Wholesale Price Index, after remaining relatively level during the second half of 1970, jumped in January and February before slowing in March. In April the index moved up 0.3%.

The gross national product deflator advanced fairly rapidly early this year, rising about 5½% at an annual rate in the first quarter. Though slowing a bit from the fourth quarter pace, the deflator was increasing at a faster rate than either the second or third quarter of last year. Gains in output this year should slow overall price increases somewhat. In addition, the government is cautioning against large price and wage increases in the steel, construction, and service industries.

Major personal income components, change from previous quarter

Item	1970		1971
	III	IV	I ¹
	Billion dollars	Billion dollars	Billion dollars
Personal income	5.9	6.1	18.1
Wages and salaries	4.3	1.4	15.0
Manufacturing .....	.1	-4.1	4.5
Nonmanufacturing	4.8	4.3	6.7
Government	-.6	1.2	3.8
Other Income	2.7	1.4	1.6
Transfer payments	-.7	3.5	3.9
Social Insurance payments (minus) .....	.3	.2	2.5
Personal tax payments	-3.5	1.9	.3
Disposable personal income ..	9.4	4.2	17.7
Personal outlays	8.1	5.3	18.1
Personal savings	1.2	-.9	-.5

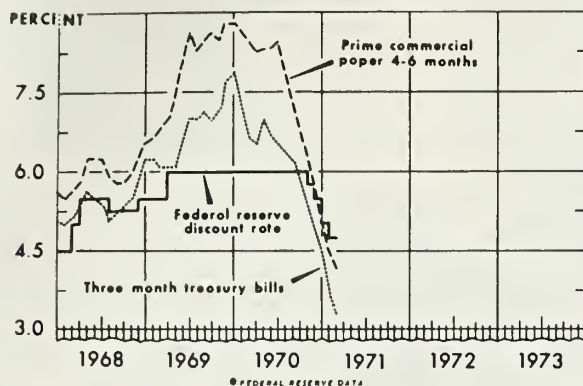
¹ Preliminary.

Monetary Situation

The monetary situation continues relatively expansive though short-term credit markets have tightened some in recent weeks. Rapid increases in money stock and generally slack demand pressures have kept interest rates down considerably from 1969-70 peaks. But some major banks in late April increased their prime rates to 5½% from 5¼% for the first advance since June 1969.

With the economy resuming its growth and the monetary authorities reluctant to risk excessive credit expansion, the money supply is not likely to expand faster. This development may tend to stabilize and then strengthen domestic money markets.

INTEREST RATES*



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The demand for additional investment credit, sharply down in 1970 and earlier this year, will likely rise in 1971-72. For many corporations, increased profits and settlement of liquidity problems will renew expansion plans. Many companies in order to generate additional capital are enlarging their outstanding common stock holdings and offering preferred issues in addition to increasing their demand for bank loans.

In the international market, West Germany has recently decided to float the mark in relationship to the

dollar. In addition, several other European countries have increased the value of their currency against the dollar. This has been done to prevent further inflow of dollars into their countries. Although this will realign the dollar with some other currencies, U.S. competitive trade position will be improved.

Foreign Trade

Still running well below last year, the U.S. merchandise trade surplus showed little change in the first quarter. Exports were heavily influenced by shipments of automobiles and parts to Canada following the end of the strike. Also contributing strongly to the export picture were agricultural commodities, especially soybeans, cotton, and tobacco. Civilian aircraft also made a large gain in the first quarter. But imports of autos from Canada, Japan, and other countries rose substantially, and imports of TVs, radios, clothing, and footwear also were sharply higher.

A relatively slower growth rate by our major customers, possible labor trouble in steel, and a poor aircraft market will tend to diminish our exports in the coming year. With our own economy growing, the U.S. will be hard pressed to gain a \$2.0 billion trade balance this year. This would fall below 1970's \$2.7 billion net.

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